

VERMONT STATE TEACHERS' RETIREMENT SYSTEM

Meeting of the Board of Trustees

August 20, 2003

Board members present:

JOSEPH MACKEY, Chairperson (Active No. 29334), term expiring July 1, 2005
JON HARRIS, Vice-Chairperson (Active No. 25669), term expiring July 1, 2007
THOMAS CANDON, representing Commissioner of BISHCA, John P. Crowley
VAUGHN ALTEMUS, representing Interim Commissioner of Education, David Larsen
JEB SPAULDING, Vermont State Treasurer

Board member on telephone:

JAY KAPLAN, Association of Retired Teachers of Vermont, term expiring July 1, 2004

Also attending:

Dick Charlton, Doug Moseley and Kevin Kondry, New England Pension Consultants (NEPC)
Elizabeth Pearce, Deputy State Treasurer
Susan Watson, Auditor's Office
Alden Walcott, retired member
David Minot, Director of Finance and Investments
Cynthia Webster, Director of Retirement Operations
Joseph Bahr, Education and Information Specialist

Mr. Mackey called the meeting to order at 8:10 a.m. on Wednesday, August 20, 2003, in the Ethan Allen Room at the State House, Montpelier, Vermont.

ITEM 1 - *Election of Chairperson and Vice Chairperson*

Mr. Spaulding nominated Joe Mackey as Chairperson and Jon Harris as Vice Chairperson. The board unanimously voted to accept the nominations.

ITEM 2 – *Approval of minutes*

Approval of the minutes for the meeting of July 21, 2003 was deferred.

ITEM 3 – *State Treasurer's Report*

Mr. Spaulding provided an update on the status of the definitions of teacher and independent contractor. A working subcommittee will be established to discuss a possible legislative remedy.

Mr. Spaulding provided an update on proxy voting. An RFP will be developed for a consultant to draft guidelines. The Deputy Treasurer is retrieving information from other states.

The Deputy Treasurer advised the board of an incident involving personnel at Loomis Sayles. **On motion of Mr. Harris seconded by Mr. Spaulding, it was unanimously voted to move into executive session at 8:30 a.m. to discuss personnel issues. The board moved out of executive session at 8:55 a.m.**

On motion of Mr. Spaulding seconded by Mr. Harris, the board unanimously voted to direct the Treasurer and NEPC to contact Loomis Sayles and request removal of Steve Kaseta from any involvement with the Vermont State Teachers' Retirement account and to replace him with Bill Driscoll and to request Loomis Sayles attend the next business meeting to explain their due diligence process.

Mr. Spaulding summarized a recent subcommittee meeting to address unitization of the three retirement systems. The Treasurer will develop a proposal to distribute to the boards. The board requested a history of unitization and investment returns of the other New England states.

Angelo Dorta, President of Vt-NEA, arrived at the meeting.

Mr. Minot distributed a summary of information discussed at meetings with NEPC and State Street Bank during a recent trip to Boston. He outlined the commission recapture program offered by State Street Bank. Mr. Minot, in conjunction with NEPC, suggested the board consider the possibility of using commission recapture for large cap domestic equities. **On motion of Mr. Mackey seconded by Mr. Harris, it was unanimously voted to authorize Mr. Minot and NEPC to reinstate a commission recapture program for large cap domestic equities, to negotiate with State Street the terms of the program and to report back to the board at the next investment meeting.**

The board discussed the services provided by the Retirement Division.

ITEM 4 - *NEPC Quarterly Review*

Mr. Charlton provided a review of the quarterly investment environment. Mr. Moseley discussed performance of the Teachers' Retirement portfolio. Mr. Kondry discussed individual manager performance. Mr. Moseley summarized the changes that have occurred recently at Lend Lease.

The fund return over the quarter ending June 30, 2003, was 11.6% versus the median public fund at 11.0%. The fund return over the last year was 5.6% versus the median public fund at 4.6%; (.3%) versus (.5%) over the last three years, and 3.7% versus 3.1% over the last five years. The market value of the fund at June 30, 2003 was \$1,098 million.

It was consensus of the board to address the appropriate timing of the semi-annual re-balancing policy at the September 23, 2003, business meeting. In the interim, the board authorized Mr. Minot to re-balance to the target asset allocation by September 15, 2003.

ITEM 5 – *Money Manager Presentations*

J & W Seligman & Company, Inc. – presenters: Dorothy Buckley and Rick Ruvkun. Seligman has \$57.4 million under management in a domestic small cap growth portfolio at June 30, 2003. Their return over the last quarter was 17.4% versus the Russell 2000 Growth index at 24.1%, (4.8%) versus the target index of .7% over the last year, and (14.0%) versus the target index at (16.7%) over the last three years.

Jay Kaplan left the meeting.

State Street Global Advisors – presenters: Chuck Martin, Brendan McDonough and Heather McGoldrick. State Street Global Advisors had a total of \$114.1 million invested in a domestic large core index fund at June 30, 2003. Their return over the last quarter was 15% versus the 15.4% for the S & P 500 index benchmark, and 3% versus the index benchmark at .3% over the last year.

State Street Global Advisors provided information to the board relating to an enhanced index product offered by their firm.

Prudential Timber Investments – presenter: Paul Young. PruTimber currently has \$6.8 million under management in an alternative investment. Their total return over the last quarter was .5%, (1.14%) over the last year, .53% over the last three years and 1.8% over the last five years.

Jay Kaplan rejoined the meeting.

ITEM 6 - *Small Cap Value Manager Presentations*

Artisan Partners Limited Partnership – presenters: Scott Satterwhite, Darren DeVore and Todd Fitts.

Wedge Capital Management, L.L.P – presenters: Martin Robinson and R. Michael James.

Wellington Management – presenters: Stephen O'Brien and George Lodge.

The board discussed the merits of the three finalists. **Mr. Kaplan moved and Mr. Mackey seconded a motion to hire Wellington Management as the small cap value manager to manage a \$50 million portfolio. Mr. Candon voted nay; Mr. Altemus, Mr. Mackey, Mr. Kaplan, Mr. Harris and Mr. Spaulding voted aye. Motion carried.**

Mr. Kaplan left the meeting.

On motion of Mr. Harris seconded by Mr. Candon, it was unanimously voted to defer the remaining two agenda items until a future meeting.

On motion of Mr. Spaulding seconded by Mr. Mackey, it was unanimously voted to adjourn at 5:00 p.m.

Respectfully submitted,

Cynthia L. Webster
Executive Secretary